

PHILIPPINES ECONOMIC WRAP-UP

DECEMBER 16-22, 2000

Summary

Key market indicators continue to await more direction from the ongoing trial of Philippine President Joseph Estrada. The fiscal deficit, however, is not waiting for anything and expanded to P114.4 billion by the end of November. The House of Representatives passed a P715 billion budget, P10 billion less than the Administration's request; the proposal is likely to meet more resistance in the Senate. The IMF completed its last review of the Philippine economy under the Stand-By Arrangement; a new "Post-Program Monitoring" framework begins in 2001. Efforts to squelch money laundering got a boost from the impeachment trial as legislators discovered bank secrecy laws can be used hide illegal activities. The long investigation of the BW Resources stock price manipulation scandal resulted in three criminal indictments this week. We also report on one new foreign investment (SGS) and one closing (Informix).

Readers should note that this is our last "Wrap-Up" for 2000; the next edition of the "Wrap-Up" will be published on January 12. We wish our readers a happy holiday season and share with you our hopes for a peaceful and prosperous new year.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our October Economic Outlook, which is also available on our web site. The next edition of the Outlook will be available in early February.

Contents

MARKET AND POLICY DEVELOPMENTS

Forex Report
Credit Market Report

Stock Market Report
 Fiscal Deficit Swells to P114.4 Billion
 Lower House Approves P715 Billion Budget
 IMF Finalizes Review
 Renewed Interest in Money Laundering
 BW Resources -- The Saga Continues
 SGS Puts Up Local Subsidiary
 US-Based Informix Closes Philippine Office

Market and Policy Developments

FOREX REPORT

Despite modest recoveries in some other regional currencies (such as the Thai baht), the Philippine peso saw little movement this week, continuing to hover right around the P50/US\$ mark. One trader noted that there is increased corporate demand for dollars, but that the steady stream of holiday remittances from Overseas Filipino Workers (OFWs) prevented further depreciation. From its December 15 close of P50.03/US\$, the peso strengthened only slightly to finish on December 22 at P49.90/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
NOV 13	50.314	50.350	125.5
14	49.885	49.830	93.5
15	49.717	49.800	65.5
16	49.904	49.890	124.4
17	49.915	49.860	79.5
NOV 20	49.834	49.815	68.1
21	49.554	49.490	97.0
22	49.465	49.120	156.7
23	49.151	49.380	113.2
24	49.544	49.930	131.5

NOV 27	49.440	49.410	150.0
28	49.393	49.520	93.1
29	49.590	49.630	174.4
30	Markets Closed		
DEC 01	49.667	49.560	142.0
DEC 04	49.471	49.475	130.8
05	49.565	49.585	84.7
06	49.832	50.050	70.0
07	50.273	50.210	122.6
08	50.108	50.050	92.0
DEC 11	49.949	49.945	68.4
12	49.856	49.850	37.5
13	49.930	49.978	52.5
14	50.071	50.085	114.1
15	50.050	50.030	86.6
DEC 18	50.072	50.120	48.8
19	50.140	50.075	123.5
20	50.075	50.058	108.9
21	50.077	50.045	88.5
22	50.024	49.900	75.9

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Statements that the policy-making Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central bank) would move again to cut key policy rates in January saw banks and traders at the Monday, December 18 T-bill auction moving to lock in higher rates. As a result, over P12 billion worth of bids were received for the P4 billion worth of paper offered. Rates fell significantly on the heavy demand; the interest rate for the 91-day T-bill sank 77.1 basis points from the previous week to 12.931%. Rates for the 182-day and 364-day bills also fell by more than 50 basis points each to 14.724% and 15.067% respectively. BSP Governor Rafael Buenaventura said that given the sharp drop, the Monetary Board might reconsider its position and move to cut overnight rates again even

before the end of the year, but that he would prefer waiting to see what December's inflation numbers look like before making such a move. The next T-Bill auction will be held on January 2, 2001.

Despite the results of Monday's T-bill auction, dealers bid up rates on the 10-year Treasury bond 287.5 basis points to 17.5% (from the last successful auction of the 10-year bond on August 29). At an unsuccessful auction attempt on October 18, the Treasury Bureau rejected all bids; acceptance could have driven rates up to 35%. Only a partial award of P1.75 billion of bonds was made against P3.185 billion worth of bids received; the government had planned to borrow P2 billion. Traders noted that the 17.5% interest rate is well in line with the secondary market rate of 17.375%.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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NOV 13	16.292	17.022	16.863
NOV 20	15.637	15.749	15.977
NOV 27	14.806	15.168	15.235
DEC 04	14.193	15.290	15.435
DEC 11	13.702	15.277	15.579
DEC 18	12.931	14.724	15.067

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
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NOV 16	18.6764	14.50 - 21.50
NOV 23	18.4160	14.50 - 21.367
NOV 29	18.2152	14.50 - 21.00
DEC 07	17.5226	14.50 - 20.806
DEC 13	17.2705	14.50 - 20.097
DEC 21	17.4326	14.50 - 20.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

A small rally spurred on by year-end 'window dressing' by local fund managers fizzled out late in the week. Trading volumes were boosted by cross trading in blocks of San Miguel shares; excluding those blocks, market activity remained largely pathetic, as investors continue to gauge the direction of the political winds blowing from the impeachment trial of Philippine President Joseph Estrada. From its December 15 close of 1403.39, the 33-share Philippine Stock Index (PHISIX) rose slightly to close on December 22 at 1429.17. Trading resumes on December 26.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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NOV 13	1455.94	695
14	1469.58	724
15	1469.20	3703
16	1468.44	2371
17	1470.52	2531
NOV 20	1465.10	2496
21	1449.00	757
22	1456.65	498
23	1447.74	599
24	1442.27	599
NOV 27	1434.25	448
28	1418.04	655
29	1404.83	695
30	Markets Closed	
DEC 01	1386.25	1100
DEC 04	1381.83	561
05	1381.23	551
06	1393.29	599
07	1390.67	504

08	1400.36	623
DEC 11	1393.71	754
12	1398.15	904
13	1395.20	286
14	1398.87	574
15	1403.39	396
DEC 18	1408.19	398
19	1413.99	2697
20	1447.65	2900
21	1426.05	954
22	1429.19	1175

Source: Philippine Stock Exchange

FISCAL DEFICIT SWELLS TO P114.4 BILLION

The national government's fiscal deficit widened further from P95.5 billion as of October to P114.4 billion as of November. After having breached its P62.5 billion full-year target in August, the government had hoped to contain the deficit to no more than P90 billion by the end of the year. Government officials now hope to contain the budget gap to P120 billion by yearend. Many think the deficit may breach even that level, believing there is little room to squeeze expenditures further.

Eleven-month revenues missed the government's original goal of P53.3 billion for the period, reflecting shortfalls in internal revenue collections (off by almost P39 billion) and privatization sale receipts (off by P17 billion). Expenditures exceeded the eleven-month program only slightly despite shelling out P12 billion more than it had estimated for interest payments (reflecting the costs of financing the ballooning deficit). That means, however, that disbursements were withheld elsewhere (very likely on capital and operations and maintenance outlays).

Tax effort (the ratio of total tax collections to GNP), already low at 13.8% in 1999, appears headed for an even weaker performance (13.5% or less) in 2000. The

continued deterioration is worrisome considering 2000's stronger and broader-based economic recovery, and suggests tax collection problems remain a serious concern. A recent study by a prestigious think-tank estimated the evasion rate for both value-added and individual income taxes at over 60%.

National Government Fiscal Performance
(January - November 2000)

	(Amounts in Billion Pesos)			
	Full-Yr. Program	January - November Prog.	Actual	Diff.
	-----	-----	-----	-----
Revenues	566.9	517.8	464.5	(53.3)
Internal Revenue	397.8	366.1	327.4	(38.7)
Customs	91.9	82.5	85.5	3.0
Treasury	21.8	18.7	24.7	6.0
Others	55.5	50.4	27.0	(23.5)
Privatization	22.0	21.5	4.4	(17.1)
Expenditures	629.4	579.2	578.9	(0.2)
Interest Payments	127.0	115.9	127.9	12.0
Deficit	(62.5)	(61.4)	(114.4)	(53.0)

Source: Bureau of the Treasury

LOWER HOUSE APPROVES P715 BILLION BUDGET

On December 19, the Philippine House of Representatives approved on third and final reading a P715 billion budget authorization for the 2001 calendar year. The House cut P10 billion from President Estrada's P725 billion budget proposal -- P5 billion in outright cuts and another P5 billion in contingent cuts (releases for which will depend on the revenue stream). The cuts reflected skepticism over the government's ability to generate enough revenues to rein in its fiscal deficit. The Senate received the budget bill on December 20, just a day before both houses adjourned for a three-week break. Senate staffers told the Embassy that the finance

committee planned to schedule "marathon" committee hearings in the new year. Various press reports indicated that the Senate finance committee was mulling much larger expenditure cuts than the House. Whether there will be a committee report by the time sessions resume on January 15 remains to be seen, depending on how heated the debates and on the demands imposed by the impeachment proceedings on Senators' schedules. Pending action by the Senate and reconciliation of any differing provisions by a bicameral conference committee, the 2000 budget will temporarily go into effect.

Presented to Congress in July 2000, President Estrada's requested P725 billion budget authorization envisioned a P85 billion fiscal-deficit ceiling. However, 2000's weak revenue performance, which serves as the base for next year's revenue program, has derailed 2001's revenue targets. Earlier macroeconomic assumptions (including 4.5-5.5% real GNP growth and a P42/US\$ exchange rate) have also been overtaken by events and are under scrutiny and review. Government officials told the Embassy that the government was mulling a revised P110-120 billion deficit ceiling for the coming year, but many believe the government risks a larger budget gap. It has become less likely that the Estrada administration will manage to achieve fiscal balance by the end of its term in 2004. Private economists continue to stress that weak public finances pose a serious threat to the economy's long-term growth prospects.

IMF FINALIZES REVIEW

After canceling the "Stand-By Arrangement" (SBA) it had signed with the Philippines as the Asian Financial Crisis erupted in 1997 (and withholding the final \$314 million disbursement of the SBA) in October, an IMF team returned to the Philippines in December to finalize the results of the October mission and to negotiate a new "Post-Program Monitoring" framework. The final review recognized the government's achievements, including an expectation of GDP growth of 4% for 2000, beating inflation targets and the accumulation of some \$14.5 billion in official reserves as a hedge against external shocks. However, the team expressed concerns for the future. External factors, such as higher oil prices and slower global

growth could have detrimental effects on the Philippines, as could internal factors like investor uncertainty over political instability.

An IMF press statement said that there was full agreement between the team and the government that the most significant concern is the budget. Revenue shortfalls and higher interest payments have led to a deficit double the original target. The IMF warned that 'significant and lasting' measures on both the revenue and expenditure sides must be taken to prevent a repeat of this poor performance in the future. The IMF provided its conditional support for Philippine monetary policy and its balancing act of preventing a large peso depreciation while maintaining some stability in interest rates; the continued success of these efforts will depend on restoring fiscal balance. Finally, the IMF team reiterated its call for badly needed economic reform legislation, particularly revisions to the Central Bank Act and power sector reform legislation. The first review under the new "Post-Program Monitoring" framework is tentatively scheduled for March/April 2001.

RENEWED INTEREST IN MONEY LAUNDERING

The ongoing impeachment trial of Philippine President Joseph Estrada has renewed interest in bank secrecy laws and money laundering. In June of 2000, the Philippines was placed on a list of 15 countries and territories deemed by the Paris-based Financial Action Task Force to be 'non-cooperative' in the international fight against money laundering. While central bank authorities took significant steps to strengthen "know-your customer" requirements and institute suspicious transaction reporting mechanisms, the Philippine legislature did little to advance anti-money laundering legislation. However, a fight to get bank account records admitted into evidence in the impeachment trial (to establish that the President controlled the funds in question) got bogged down as the bank in question delayed releasing the records, citing bank secrecy provisions. When the records were eventually released, vital information about the account owners was missing from the signature card, making the task of the prosecutors to link the President to the account all the more difficult. A central bank

official commented that under the rules in place when the account was opened, banks were not required to collect all the information on the signature card, and as such no sanctions were possible. He noted further that under existing bank secrecy rules, central bank examiners are not even allowed to review signature cards for accuracy and completeness.

In a related development, the Bankers Association of the Philippines (BAP, an association of over 50 commercial banks) will convene a meeting of bankers in mid-January to discuss ways to detect and combat money laundering. An expert from Scotland Yard has apparently been invited to speak. BAP Executive Director Leonilo Coronel told reporters that the BAP would also embark on a lobbying campaign to press for passage of an anti-money laundering law.

BW RESOURCES -- THE SAGA CONTINUES

On December 19, the Philippine Department of Justice (DOJ) filed criminal charges against Dante Tan, Eduardo Lim and Jimmy Juan for engaging in illegal manipulation of stock prices. The BW Resources scandal, which erupted in October 1999 badly shook local and international investor confidence in the efficacy of market supervision and regulation, leading to huge outflows of portfolio investments. The charges allege that Tan, Lim, and Juan used various methods to run up the price of shares in gaming and real estate firm BW Resources between February and October 1999. The case took on particular import when it was alleged that President Estrada contacted Perfecto Yasay, the head of the Securities and Exchange Commission (SEC) at the time, to urge him to back off of Tan in its investigation. (Interfering in the BW Resources investigation is one of the impeachment charges President Estrada is currently facing.)

While the three face criminal charges, the DOJ declined to charge 37 other BW resources stockholders, 11 brokerage firms and 2 investment houses that had also been implicated in the SEC's investigations. The DOJ ruled the SEC had failed to prove these other parties had conspired with Messrs. Tan, Lim and Juan in the price manipulation scheme.

SGS PUTS UP LOCAL SUBSIDIARY

Swiss international trade service provider Societe Generale de Surveillance (SGS) is staying in the Philippines, and has put up a wholly owned subsidiary - SGS Global Trade Solutions Philippines, Inc. (SGS-GTS). The P115 million (\$2.5 million) processing center will serve as a back-office service center for its affiliates outside the Philippines that are engaged in import verification, inspection and related activities under contract with various client governments and international institutions. Initial investments (P115 million) will be used mainly for the purchase locally of computers, other information equipment and retrofitting of the new location at the Northgate Cyberzone IT Park in Filinvest Corporate City, Alabang. Northgate is administered by the Philippine Economic Zone Authority (PEZA), which has approved the registration of SGS-GTS.

SGS had a pre-shipment inspection contract with the Philippine government, which expired on March 31 this year after almost 12 years of service. The company's processing unit manager had commented that SGS decided to stay in the Philippines because of the country's educated, skilled, and experienced worker; adequate infrastructure including IT facilities; and relatively lower labor costs. The SGS manager added that by the year 2004, SGS's processing center would require about 200 people; 95 percent of them would be Filipinos.

US-BASED INFORMIX CLOSES PHILIPPINE OFFICE

Due to the reorganization of US-based database firm Informix in September, its local subsidiary, Informix Philippines, is closing operations effective January 1, 2001. In an interview, country manager Sonny Halili has said Informix Philippines, which is manned by a small staff of 10, will be represented by the Singapore office while direct accounts will be handled by local partners being appointed. The decision to shut down operations is not due to the current political crisis, according to Mr. Halili. It was a business decision, amid signs of a "cooling" US economy, to limit operations to Singapore

and Hong Kong, and also downscale other operations in Indonesia and India.